

**BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO**

In the Matter of the Protest of	)	
	)	DOCKET NO. 19065
[Redacted],	)	
	)	DECISION
Petitioner.	)	
_____	)	

On June 27, 2005, the staff of the Income Tax Audit Bureau of the Idaho State Tax Commission issued a Notice of Deficiency Determination to [Redacted] (taxpayer), proposing additional income tax and interest for the taxable year 2002 in the total amount of \$616.

On September 19, 2005, the taxpayer filed a timely appeal and petition for redetermination. The taxpayer did not respond to the Tax Commission's hearing rights letter or the follow-up letter to the hearing rights letter. Therefore, the Tax Commission, having reviewed the file, hereby issues its decision affirming the Notice of Deficiency Determination.

The taxpayer timely filed her 2002 part-year Idaho resident individual income tax return claiming a credit for taxes paid to [Redacted] and [Redacted]. The Income Tax Audit Bureau (Bureau) selected the taxpayer's 2002 return to examine the claimed credit. The Bureau reviewed the information available and determined the taxpayer had no income that was taxed by both Idaho and another state. The Bureau adjusted the taxpayer's return and sent her a Notice of Deficiency Determination.

The taxpayer protested the Bureau's determination. She stated that the three states where she filed, [Redacted], and Idaho, all used the pension distribution money she received while living in Idaho. She stated that since the money was based on her earnings while working in [Redacted], she had to report the full amount on her [Redacted] tax returns. The taxpayer stated she was taxed three times on the same income.

The Bureau referred the matter for administrative review. The Tax Commission sent the taxpayer a letter giving her two options for having the Notice of Deficiency Determination redetermined. The taxpayer did not respond, so the Tax Commission sent a follow-up letter. Still the taxpayer failed to respond. Therefore, the Tax Commission decided the matter based upon the information available.

In 2002, the taxpayer lived in [Redacted] for two and one-half months, [Redacted] for six months, and Idaho for three and one-half months. The taxpayer filed income tax returns for each state reporting the wages she earned in each state to the respective state. In addition to the wages earned in Idaho, the taxpayer reported the distribution of a pension as Idaho source income. The taxpayer stated that the pension income was also reported to [Redacted]. She said all three states taxed the pension income.

The Tax Commission does not agree that [Redacted] and [Redacted] taxed the taxpayer's pension income. The taxpayer filed a part-year resident income tax return with [Redacted] for the income she earned while living in [Redacted]. She included as [Redacted] income the wages she earned in [Redacted] and nothing else. She did, however, claim an educational deduction that reduced the amount of her [Redacted] source income. To compute a part-year resident's tax, [Redacted] uses the percentage of [Redacted] source income to federal adjusted gross income. [Redacted] then calculates the tax that is applicable to federal adjusted gross income minus certain deductions and modifications. The tax is then multiplied by the percent of [Redacted] income to federal income to arrive at [Redacted] tax. Using this method, [Redacted] did not tax the pension income.

The taxpayer also filed a part-year resident income tax return with [Redacted] for the income she earned while living in [Redacted]. On her [Redacted] return, the taxpayer only

reported wages as [Redacted] source income. [Redacted], like [Redacted], calculates its tax by starting with federal adjusted gross income, subtracting various deductions and modifications, and applying a tax rate to the result. [Redacted] then prorates their standard deduction based upon the ratio of [Redacted] source adjusted gross income to federal adjusted gross income modified by [Redacted] law. A tax rate is determined based upon the percentage of the tax calculated on modified federal taxable income to modified federal taxable income. That tax rate is then applied to [Redacted] source taxable income to arrive at [Redacted] tax before exemption credits and other credits. [Redacted] method did not tax the taxpayer's pension income.

Idaho Code section 63-3029 states, in pertinent parts,

**Credit for income taxes paid another state or territory. -- . . .**

(9) A part-year resident is entitled to a credit, determined in the manner prescribed by the state tax commission, for income taxes paid to another state in regard to income which is:

- (a) Earned while the taxpayer is domiciled in this state; and
- (b) Subject to tax in such other state.

Idaho's credit for taxes paid to another state is for residents and part-year residents of Idaho that have income from sources in another state that is subject to tax in Idaho and the other state. (Idaho Code section 63-3029(1) and (9).) Idaho's credit for taxes paid to another state is intended to ease the burden of paying state income taxes on the same income to more than one state. However, in order to receive the credit, the income has to be subject to tax in both Idaho and the other state. In this case, the taxpayer earned income in [Redacted] in 2002. However, the income earned in each state was only taxed by that particular state. Even though the pension income was included as part of federal adjusted gross income in the calculation of each state's tax, only Idaho taxed the pension income.

Since the taxpayer did not have income that was taxed by both Idaho and another state, no credit is allowed. Therefore, the Tax Commission must uphold the Bureau's adjustment disallowing the credit for taxes paid to another state.

WHEREFORE, the Notice of Deficiency Determination dated June 27, 2005, is hereby APPROVED, AFFIRMED, and MADE FINAL.

IT IS ORDERED and THIS DOES ORDER that the taxpayer pay the following tax and interest:

<u>YEAR</u>	<u>TAX</u>	<u>INTEREST</u>	<u>TOTAL</u>
2002	\$543	\$108	\$651

DEMAND for immediate payment of the foregoing amount is hereby made and given.

An explanation of the taxpayer's right to appeal this decision is enclosed.

DATED this \_\_\_\_ day of \_\_\_\_\_, 2006.

IDAHO STATE TAX COMMISSION

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COMMISSIONER

#### CERTIFICATE OF SERVICE BY MAIL

I hereby certify that I have on this \_\_\_\_ day of \_\_\_\_\_, 2006, served a copy of the within and foregoing decision by sending the same by United States mail, in an envelope addressed to:

[Redacted]

Receipt No.